IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 982

THE PURE OIL COMPANY, *Petitioner*,

v.

PETROLITE CORPORATION, LTD., *Respondent*

PETITION FOR WRIT OF CERTIORARI

To the United States Circuit Court of Appeals For the Fifth Circuit

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The Pure Oil Company prays that a writ of certiorari be issued to review a judgment of the Circuit Court of Appeals for the Fifth Circuit affirming the judgment of the District Court which sustained a motion dismissing Petitioner's complaint for failure to state a claim upon which relief could be granted.

Opinions Below

The opinions of the District Court (R. 19, 48) are not reported. The opinion of the Circuit Court of Appeals (R. 55) is not yet reported.

Jurisdiction

The judgment of the Circuit Court of Appeals was entered on December 12, 1946 (R. 60). The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925 (U.S.C., Title 28, Sec. 347a).

Questions Presented

1. Whether owners of patents can enter into agreements for the sale of equipment or products and as a part of the consideration for such sales require payment of royalties under expired patents.

2. Whether the act of Respondent in refusing to execute a sales agreement pursuant to a written purchase option except one which would require Petitioner to pay royalties under expired patents, has the legal effect of relieving Petitioner from complying with any provision of the option requiring agreement upon terms of a sales agreement in addition to the valid terms specified in the option. Both the District Court and the Circuit Court of Appeals gave effect to this provision of the option and held that it was necessary for the parties to agree upon all of the terms of such agreement.

3. Whether the act of Respondent in attempting to retain control over certain equipment by the terms of the sales agreement for the purpose of compelling Petitioner to pay royalties under the expired patents listed in the 1930 license, has the legal effect of relieving Petitioner from agreeing with Respondent upon such agreement.

4. Whether Petitioner can have determined in a suit for a declaratory judgment that Respondent cannot maintain a suit to recover possession of certain equipment because

such suit would be in furtherance of its unlawful action which violates the Patent Laws of the United States. The Circuit Court of Appeals held that this question arising from the arbitrary and unreasonable action of Respondent could not be determined in a declaratory judgment action but must await the bringing of a suit by Respondent to recover possession of the property.

Statement

Petitioner filed this suit under the Federal Declaratory Judgment Act (U.S.C., Title 28, Sec. 400), and the District Court sustained a motion to dismiss the complaint for failure to state a claim upon which relief could be granted (R. 49). The Circuit Court of Appeals affirmed the judgment dismissing the complaint (R. 60).

In 1930 Petitioner obtained a license under various patents of Respondent, and on the same date it entered into an agreement with Respondent for the lease of certain equipment (R. 36, 42). These agreements, as extended, gave Petitioner the right to use various processes for dehydrating and desalting crude oil and to lease equipment for the use of such processes (R. 36, 42). The lease agreement contained a purchase option which provided that Petitioner should have the right to purchase the equipment and continue to operate same, subject to the terms of a sales and purchase agreement to be entered into, by paying the cost of new equipment less ten per cent (10%) per year depreciation (R. 45).

After paying royalties to Respondent for fourteen years, Petitioner elected in 1944 to purchase the equipment pursuant to the option and tendered the purchase price specified therein (R. 30). Respondent tendered a sales agreement to the equipment which obligated Petitioner to pay royalties on all processes and products disclosed by all of the patents

listed in the 1930 license agreement—68 out of 70 of such patents having expired at such time; and in the same agreement Respondent reserved an option to repurchase the equipment and exercised it at the time of tendering the agreement (R. 32-33). Respondent informed Petitioner that this was the only sales agreement which it would execute (R. 33). Petitioner refused to accept the sales agreement (R. 32) and brought this suit to determine its rights.

Petitioner alleged in its complaint that Respondent "has made demand upon plaintiff to return all of said equipment" and has "demanded immediate possession of all of the equipment" (R. 32). In its prayer Petitioner requested the Court to determine that it had the title to the equipment or had the right to obtain the title by paying the consideration specified in the option and in addition Petitioner prayed for other and further relief (R. 34).

Both the trial court and the Circuit Court of Appeals held that Petitioner could not obtain title to the equipment under the option until it had agreed with Respondent upon the sales and purchase agreement (R. 60), and in addition the Circuit Court of Appeals held that it was not concerned with the fact that the tendered sales agreement was arbitrary and unreasonable because this was not a suit by Respondent to recover the equipment wherein any estoppel created by its arbitrary action could be invoked (R. 60). In a petition for rehearing Petitioner pointed out that it was entitled to have determined in this declaratory judgment suit whether Respondent could recover possession of the equipment as demanded by it but the petition was denied (R. 61, 68).

Specification of Errors to be Urged

The Circuit Court of Appeals erred—

(1) In holding that the right to purchase the equipment

was contingent upon Petitioner agreeing with Respondent upon the sales and purchase agreement, even though Respondent was only willing to execute an agreement which violated the patent laws of the United States.

(2) In holding that the Court was not concerned with the fact that the agreement tendered by Respondent was arbitrary, unreasonable and contrary to the spirit and intent of the lease agreement.

(3) In holding that the act of Respondent in refusing to execute a sales and purchase agreement except one which would violate the patent laws of the United States did not relieve Petitioner from complying with the provision of the option requiring agreement with Respondent upon a sales and purchase agreement.

(4) In holding that Petitioner did not have the title to the equipment and did not have the right to obtain the title by paying the consideration specified in the option.

(5) In holding that the question whether Respondent's unlawful and arbitrary action would prevent it from recovering the equipment could not be determined in a declaratory judgment action but must await a suit by Respondent to recover possession of the equipment.

Reasons for Granting the Writ

1. This case involves a question of manifest importance in the administration of the patent laws, and that is, whether owners of patents can enter into executory agreements or options for the sale of equipment or products and in carrying out such sales require the payment of royalties under expired patents. Further, what is the legal effect and consequence of such action in determining the rights of purchasers to the enforcement of the options? This Court has held that the

legal effect and consequence of an act which violates a Federal statute is a Federal question to be determined in accordance with Federal policy. *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173, 176 (1942).

Petitioner claims that when Respondent tendered a sales agreement pursuant to the purchase option obligating it to pay royalties under expired patents and reserving an option to repurchase the equipment for the purpose of compelling payment of royalties under the expired patents of the 1930 license agreement, and also advised Petitioner that this would be the only sales agreement which Respondent would execute, it relieved Petitioner from complying with any provision of the option requiring agreement with Respondent upon a sales and purchase agreement. The allegations of the complaint establish that Respondent refused to execute a valid and legal agreement (R. 32-33). It is a well established rule that when compliance with a provision or condition precedent of an executory agreement depends upon the coöperation of both parties and one party refuses to coöperate or renders compliance impossible, he thereby waives or relieves compliance with the provision or condition by the other party. WILLISTON ON CONTRACTS (Rev. Ed.), Volume 3, Sections 677, 698a, 698b; *Williams v. The Bank of the United States*, 2 Peters 96 (1829); *Crescent Mining Company v. The Wasatch Mining Company*, 151 U.S. 317, 322 (1894); cf. *R. H. Stearns Co. v. United States*, 291 U.S. 54, 61-62 (1934).

Likewise, it should be held that when a party to an executory agreement refuses to carry out a particular provision of the agreement except under conditions which would violate a Federal statute, he waives or relieves compliance with that provision by the other party, who becomes entitled to have the agreement enforced in accordance with its other terms. This is manifestly an important Federal question which should be settled by the Supreme Court.

Since the equipment to be sold here was identified, the grantor and grantee were known, and a valid consideration was specified in the option, Petitioner was entitled to have the option enforced in accordance with its other terms which were adequate to support the sale of the property.

2. The Circuit Court of Appeals held that it was necessary for Petitioner to agree with Respondent upon a sales and purchase agreement in order to acquire title to the equipment under the purchase option and that they were not concerned with the fact that the sales agreement tendered by Respondent was arbitrary and unreasonable (R. 60). The Court thereby held that it was necessary for Petitioner to comply with the provision of the purchase option requiring execution of a sales and purchase agreement, even though Respondent was willing to execute only a sales agreement which required payment of royalties under expired patents and which allowed Respondent a repurchase option to enforce the payment of royalties under the expired patents of the 1930 license agreement. Such holding conflicts with the decisions of this Court in *Scott Paper Company v. Marcalus Manufacturing Company, Inc., et al.*, 326 U.S. 249 (1945), and *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173 (1942).

In the *Marcalus* case this Court held that any attempted continuation in the patentee of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. If owners of patents, who have equipment or products for sale to the public, can condition such sale upon the payment of royalties under expired patents or can retain control over the equipment or products for the purpose of compelling payment of such royalties, they will defeat the time limitation of the patent laws and this will be an adroit method of extending patents beyond 17 years. In the present case the lower courts

have given effect to a provision of an option which Respondent is willing to carry out only under conditions which violate the patent laws and the decisions of such courts are contrary to the Federal policy announced by this Court in the *Marcalus* case.

In the *Sola Electric Company* case, this Court held that a provision of a contract which violated a Federal statute was unenforceable and refused to give effect to such provision. Likewise, a provision of an option which the seller is willing to carry out only under terms which violate the patent laws is of no force and effect.

3. The holding of the Circuit Court of Appeals places a limitation upon the Federal Declaratory Judgment Act (U. S. C., Title 28, Sec. 400), which is not justified by the wording of the statute. The Court held that it was not concerned with the fact that the sales and purchase agreement tendered by Respondent was arbitrary, unreasonable, and contrary to the spirit and intent of the lease agreement, because this was not a suit by Respondent to recover the equipment wherein any estoppel created by its arbitrary action could be invoked (R. 60). In other words, the Court held that the question arising from Respondent's arbitrary and unreasonable action could not be determined in a declaratory judgment action but must await the bringing of a suit by Respondent to recover possession of the property.

The Circuit Court of Appeals did not question the fact that the allegations in Petitioner's complaint were sufficient to raise the issue whether Respondent was entitled to recover possession of the equipment as demanded by it. Petitioner alleged that Respondent had made demand upon it to return all of the equipment and that after tendering the sales agreement and at the same time exercising the option reserved therein to repurchase the equipment, Respondent "demanded immediate possession of all of the equipment" (R. 32). In

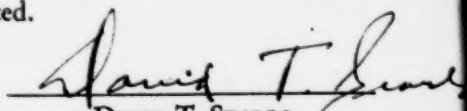
addition to requesting determination of its right to obtain title to the equipment, Petitioner prayed for other and further relief (R. 35). However, it was entitled to the relief to which its stated facts entitled it, even though it did not demand such relief in the prayer. Rule 54c, *Federal Rules of Civil Procedure; Truth Seeker Company, Inc., v. Durning*, 147 F. (2d) 54, 56 (C.C.A. 2d, 1945); *Ring v. Spina*, 148 F. (2d) 647, 653 (C.C.A. 2d, 1945); *Keiser v. Walsh*, 118 F. (2d) 13, 14 (Ct. App. D.C. 1941).

The holding in the present case conflicts with a decision of the same court in *Mississippi Power & Light Co. v. City of Jacksonville, et al.*, 116 F. (2d) 924, 925 (C.C.A. 5th, 1941), certiorari denied, 312 U.S. 698. The Court in that case held that the Federal Declaratory Judgment Act extended by its terms to all cases of actual controversy except with respect to Federal taxes, and that it should be given a liberal construction and application.

The holding in the present case conflicts with decisions of this Court in which the Court has recognized that it is proper to bring a declaratory judgment suit to determine whether a party who has violated a Federal statute can maintain suits in court which would be in furtherance of the violation. In *Mercoid Corporation v. Minneapolis Honeywell Regulator Co.*, 320 U.S. 680 (1944), the petitioner brought a suit for a declaratory judgment to determine that as the respondent had used a patent in violation of the antitrust laws, it could not maintain infringement suits against petitioner and its customers. In *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173 (1942), the defendant filed a counterclaim for a declaratory judgment alleging that a suit to recover royalties under a contract could not be maintained because the contract was in violation of the antitrust laws. Likewise it can be determined in the present declaratory judgment suit that Respondent is not entitled

to maintain a suit to recover possession of the equipment as demanded by it because such suit would be in furtherance of its attempt to extend its patents beyond 17 years which runs counter to the patent laws.

It is respectfully submitted that this Petition for Writ of Certiorari should be granted.



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FILE COPY

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v.

PETROLITE CORPORATION, LTD., *Respondent*

REPLY OF PETITIONER TO RESPONDENT'S BRIEF IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI

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REPLY OF PETITIONER TO RESPONDENT'S BRIEF IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI

Respondent has attempted to gloss over and obscure the substantial federal questions raised in the petition for writ of certiorari by stating that such questions were not decided in the Circuit Court of Appeals and are not involved in this case, that this case involves solely principles of property and contract law, and that there can be no issue respecting patents, whether expired or unexpired, since there is no license agreement in effect between the parties and there is no controversy in the case concerning infringement of patents. (Brief, pp. 1, 2.)

1. The Circuit Court of Appeals decided the questions presented here by the petition for writ of certiorari.

The nub of this suit from the beginning has been to have determined the legal effect of Respondent's unlawful act in pursuing its plan to require Petitioner to pay royalties under the expired patents listed in the 1930 license agreement. Petitioner refused to accept the tendered sales agreement which would have carried out this plan and brought this suit for a declaration of its rights.

As a result of Respondent's unlawful act two principal questions are presented: (1) Is Petitioner relieved from agreeing upon the sales and purchase agreement which would impose upon it obligations to pay royalties under expired patents and which would allow Respondent to retain control of the equipment for the purpose of assuring payment of such royalties? (2) Does Petitioner have the right to have determined in a declaratory judgment suit the question whether Respondent can recover possession of the property when such recovery would be in furtherance of its plan to compel payment of royalties under expired patents?

With respect to the first question, the Circuit Court of Appeals held that since the purchase option required Petitioner to agree upon a sales and purchase agreement, it was necessary for Petitioner to agree with Respondent on such agreement in order to acquire title to the property (R. 59). In deciding the second question, the Circuit Court of Appeals recognized that Respondent's act was unlawful and arbitrary, but stated that this question should await the bringing of a suit by Respondent to recover possession and could not be determined in this declaratory judgment suit (R. 60).

2. Petitioner's complaint raises the issues presented by the petition for writ of certiorari.

Respondent has made the bald statement in its brief that "there are no allegations of fact in support of Petitioner's

conclusion that such agreement required the payment of royalties on expired patents." (Brief, p. 6.)

Petitioner alleged in its complaint that "The sales and purchase agreement tendered by defendant would have required plaintiff to pay royalties on all processes and products disclosed by the 70 patents listed in said license agreement, 68 of said patents had expired at the time said tender was made, and all of said patents will have expired by November, 1945" (R. 33). Petitioner further alleged that the tendered sales agreement was a subterfuge and a sham, that the provisions requiring it to pay royalties under expired patents and reserving to Respondent an option to repurchase were unreasonable and that by reason thereof Respondent waived any requirement or condition that a sales and purchase agreement be entered into in order for Petitioner to acquire title to the equipment (R. 33).

The Circuit Court of Appeals recognized that these allegations were sufficient to raise the issue that the tendered agreement was unlawful and arbitrary and said:

> "We are not here concerned with the fact that the Appellee tendered a sales and purchase agreement reserving to itself an option to repurchase from Appellant the equipment and at the same time exercising the option then and there to repurchase it, and that such tendered agreement was arbitrary, unreasonable, and contrary to the spirit and intent of the lease agreement in this case. This is not a suit by Petrolite to recover the equipment wherein any estoppel created by its arbitrary action could be invoked" (R. 60).

The statement by Respondent in its brief that the invention relating to desalting was made long after 1930 is not supported by the record. The question as to whether the patents listed in the 1930 license agreement cover desalting as well as dehydrating, which is the contention of Petitioner,

is a matter to be determined after the introduction of proof on the trial, but aside from this fact Petitioner is using some of the equipment to practice dehydrating (R. 27) and Respondent does not question the point that the expired patents listed in the 1930 license agreement cover the electrical process for dehydrating crude oil.

3. This case does not involve a forfeiture of title by reason of a misuse of patents and the decision of the Court in Hartford-Empire Company, et al., v. United States, 325 U.S. 386, is not pertinent.

Respondent asserts in its brief that the Supreme Court has never held that a misuse of patents works a forfeiture and cites the decision of the court in *Hartford-Empire Company, et al., v. United States*, 325 U.S. 386 (Brief, p. 9). We do not contend here that Respondent's unlawful act resulted in a forfeiture of its title to the equipment but we do contend that where Respondent was willing to carry out a particular provision of a purchase option, providing for the execution of a sales and purchase agreement, only under conditions which would require Petitioner to pay royalties under expired patents, such act has the legal effect of relieving compliance with that particular provision and Petitioner becomes entitled to have the option enforced in accordance with its other terms which were adequate to support the sale of the property.

4. The courts are not limited in their consideration of questions as to misuse of patents to only those cases involving enforcement of license agreements or infringement of patents.

Respondent states in its brief that there can be no issue

respecting patents or the use thereof, whether expired or unexpired, since there is no license agreement in effect between the parties and as there is no controversy concerning infringement of patents (Brief p. 2). The determination of questions with respect to misuse of patents is not limited to this narrow field. Where Respondent has attempted as an incident to the sale of property to require payment of royalties under expired patents, it is an important matter of Federal policy to determine the legal effect of this act which runs counter to the policy and purpose of the patent laws. Where a party imposes unlawful conditions in the carrying out of a particular provision of an executory agreement, it should be held that he has waived or relieved compliance with that provision of the agreement because a person should not be required to comply with any provision which would result in a violation of a Federal statute.

5. A trial court should not sustain a motion to dismiss under the Federal Rules for failure to state a claim unless it appears beyond any doubt that the plaintiff would not be entitled to any relief under any state of facts which might be proved on the trial of the case.

This case is a clear example of the error of a trial court in attempting to decide a case on a motion to dismiss. Petitioner's complaint raises issues of fact and all of the allegations therein must be assumed to be true on this appeal from a judgment sustaining a motion to dismiss. Petitioner has not had its day in court and it should be given an opportunity to prove and establish the unlawful action of Respondent in attempting to carry out its plan of requiring and assuring payment of royalties under expired patents.

Many of the Circuit Courts of Appeals have held that

there is no justification for sustaining a motion to dismiss a complaint under the Federal Rules for failure to state a claim unless it appears to be a certainty that the plaintiff would be entitled to no relief under any state of facts which could be proved in support of the claim. *Dennis, et al., v. Village of Tonka Bay, et al.*, 151 F. (2d) 411, 412 (C.C.A. 8th, 1945); *Carroll, et al., v. Morrison Hotel Corporation, et al.*, 149 F. (2d) 404, 406 (C.C.A. 7th, 1945); *Dioguardi* v. *Durning*, 139 F. (2d) 774, 775 (C.C.A. 2nd, 1944); *Continental Collieries, Inc., v. Shober*, 130 F. (2d) 631, 635 (C.C.A. 3rd, 1942); *Tahir Erk v. Glenn L. Martin Co.*, 116 F. (2d) 865, 870 (C.C.A. 4th, 1941).

Respectfully submitted,

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IN THE

Supreme Court of the United States

October Term, 1946
No. 982.

THE PURE OIL COMPANY,

Petitioner.

vs.

PETROLITE CORPORATION, LTD.,

Respondent.

Brief of Respondent in Opposition to Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Fifth Circuit.

Opinions Below.

The opinion of the District Court is reported in 68 F. Supp. 851 (S. D. Tex., 1945). The opinion of the Circuit Court of Appeals is reported in 158 F. (2d) 503 (C. C. A. 5, 1946).

Questions Presented.

Certiorari is sought to review four questions propounded in the Petition. See *Rev. Rules of Sup. Ct.* 38(2). None of these questions was decided in either the District Court or the Circuit Court of Appeals and none of them is involved in the case.

On the contrary, the Petition brings to the attention of the Supreme Court a case resting solely upon well estab-

lished principles of property and contract law concerning the title to certain personal property and the effect of an agreement to enter into an agreement for the sale of such property. While the matter is presented as a question of patent law, there is and can be no issue respecting patents or the use thereof, whether expired or unexpired, since there is no license agreement in effect between the parties, and there is no controversy in the case concerning infringement of patents.

Certain inaccuracies and omissions in the facts as stated in the Petition will be rectified in the course of the following statement.

Reasons for Denying the Writ.

1. There Is Involved No Important Question of Federal Law Which Should be Decided by the Supreme Court, But Only Questions of Fundamental Contract and Property Law Correctly Decided by the Courts Below.

It is alleged in the Second Amended Complaint [R. 26, 27] that Respondent, Petrolite Corporation, Ltd., had licensed Petitioner, The Pure Oil Company, to use its patented processes for the dehydration and desalting of petroleum on a royalty basis under a License Agreement, and had also leased to Petitioner, without separate consideration, certain specially designed equipment for the purpose of employing such patented processes in the treatment of crude petroleum oil [R. 42-47]. For purposes of its own, Petitioner thereafter elected to terminate these License and Lease Agreements, effective on May 1, 1944, and in its own words, they were thereupon "of no further force or effect" [R. 30].

As a result, Petitioner had no right to continued use or possession of the equipment, and as provided in the Lease Agreement, it was then bound "to return to Lessor the equipment leased hereunder in good and operative condition, the results of ordinary careful use excepted" [R. 45].

Petitioner relied, however, upon this further provision of the Lease Agreement:

> "Lessee shall have the right at any time prior to the termination hereof, *to purchase said equipment and continue to operate same, subject to the terms of a sales and purchase agreement to be entered into between the parties hereto,* by paying to Lessor a sum equal to the cost of new equipment of similar grade and construction, f.o.b. Houston, Texas, less ten per cent (10%) per year depreciation during the time said equipment has been in existence." [R. 45—emphasis supplied.]

A few days prior to expiration of the License and Loan Agreements, Petitioner gave notice to Respondent that it was exercising this "option" to purchase the equipment and tendered the alleged depreciated cost in payment therefor [R. 30, 31]. It rejected, however, a sales and purchase agreement tendered by Respondent [R. 32], and no such agreement has ever been entered into by the parties [R. 34, 35], although the foregoing provision clearly required such agreement before any purchase could be effected [R. 45].

Disregarding such requirement, Petitioner instituted this action praying a declaratory judgment that it had the right

to purchase the equipment at its depreciated cost, without any agreement relating to such purchase or to subsequent operation of such equipment [R. 34].

Petitioner's original Complaint was replaced by a First Amended Complaint, which was itself amended. Respondent's Motion to Dismiss for failure to state a claim upon which relief could be granted was thereafter sustained. Petitioner then filed a Second Amended Complaint, to which a Motion to Dismiss was likewise sustained by the District Court. The Circuit Court of Appeals affirmed the judgment of the District Court and rehearing was denied.

The decisions below [R. 58, 59] held that Petitioner's right to purchase the equipment was not absolute, but that by the terms of the foregoing provision, it was dependent upon the prior execution of a sales and purchase agreement, which was to govern such purchase and the continued operation of the equipment, and that as no such agreement had been alleged and, on the contrary, was admittedly never made, Petitioner was not entitled to a declaration that it had title to the equipment. Since the so-called "option" was merely an agreement to enter into an agreement, it had no legal effect.

It is apparent, therefore, that the Petition presents no important question of federal law and that on the contrary, the case was correctly decided solely by the application of fundamental principles of local state law. Were it asserted here that the state law was not properly applied, such would not be ground for certiorari. *Ex Parte Woods*, 143 U. S. 202, 36 L. Ed. 125, 12 Sup. Ct. 417 (1892).

2. There Is No Question Whatever Respecting Expired Patents.

The Petition, however, is predicated upon the hypothesis that some requirement as to payment of royalties under expired patents is involved. No patent question is possible. Neither party is suing for patent infringement, there is no license agreement in effect between them, and there has been and is no attempt to enforce patent rights of any kind. The only controversy in the case is which party has title to and the resultant right to possession of the equipment leased by Respondent to Petitioner.

There is no question of royalties on expired patents under the terminated License Agreement [R. 36-42], which provided for the payment of royalties [R. 38] at a specified rate per barrel of treated oil "subjected to treatment . . . under Licensor's Patents or any one or more thereof."

The Second Amended Complaint does not allege that Petitioner paid, or that Respondent attempted to collect, during the continuance of such License Agreement, any royalty at any time under any of the patents after they expired, nor is there any allegation that either of the parties interpreted such agreement to require payment of royalties under any expired patent. Nor, under *Scott Paper Co. v. Marcalus Mfg. Co., Inc., et al.*, 326 U. S. 249, 90 L. Ed. Adv. Op. 88, 66 Sup. Ct. 101 (1945), could the agreement be interpreted to obligate such payment. Cf. Ellis, *Patent Assignments and Licenses* (2d Ed. 1943), Sec. 557.

But Petitioner maintains that some federal question has arisen out of a supposed requirement by Respondent that Petitioner agree to pay royalties under expired patents

pursuant to the tendered sales and purchase agreement which was not accepted. This position is wholly untenable (a) because no such facts are alleged in the pleadings, and (b) because they would be irrelevant in any event.

(a) It Is Apparent From the Record That the Tendered Sales Agreement Did Not Violate Any Rule of Patent or Other Law.

The record contains no copy of the proffered agreement, and there are no allegations of fact in support of Petitioner's conclusion that such agreement required the payment of royalties on expired patents. It is alleged only that the agreement provided for use of the purchased equipment subject to the payment of royalties under the License Agreement of 1930, and that of the patents listed therein, a large number had expired at the time the sales agreement was tendered [R. 32, 33]. As noted above, however, the License Agreement royalty was for the use of "any one or more" of Licensor's Patents, and the pleadings *admit* that some of the patents had not expired. In addition, "Licensor's Patents" were defined by the License Agreement [R. 37] to include patents issued subsequent to 1930 on applications then pending and on later improvements, and these were in existence at the time of tender, as well as the unexpired patents listed in the License Agreement. Moreover, the License Agreement was extended in 1936 to include the electrical desalting of petroleum oils [R. 26-28], and Petitioner's pleading shows that nearly all of the equipment is employed in practicing desalting, rather than dehydration, an invention made long after 1930 [R. 15, 47].

Thus it is clear from the record that the License Agreement, pleaded in *haec verba* [R. 36-42], could not

reasonably be construed as requiring royalties on expired patents, which are not patents at all, and there is no allegation that Respondent ever attempted to collect such royalties thereunder. It is equally clear that the tendered sales agreement, which was to implement the License Agreement, contained no such requirement.

While the facts are apparent from the record, Respondent further emphasizes that *it does not collect or attempt to collect royalties on expired patents and has never done so, and that it did not and does not interpret the tendered but unexecuted sales agreement as requiring such royalties.* There is, therefore, no controversy between the parties concerning the right to collect royalties on expired patents which could serve as the legal basis for a declaratory judgment. *Federal Declaratory Judgment Act* (28 U.S.C. Sec. 400); *Markham v. Gorder*, 150 F. (2d) 894 (C.C.A. 8, 1945); *Larson v. General Motors Corporation*, 134 F. (2d) 450 (C.C.A. 2, 1943).

It was also argued that the proposed agreement was unreasonable because of an option therein reserved to Respondent for repurchase of the equipment. The record shows, however, that the parties always intended that Respondent's equipment, whether leased or sold, should be operated only in connection with the use of its patented processes (Lease Agreement, Recitals and Secs. First, Third, Fourth, Fifth and Seventh; [R. 42-46]. It was, therefore, both natural and reasonable that Respondent should tender an agreement calling for use of the equipment under the License Agreement, with an option to repurchase the same upon termination of such License Agreement. In insisting upon such sales agreement, it was simply requiring observance of the terms and spirit of its agreements with Petitioner.

Petitioner's own pleadings, therefore, affirmatively establish the propriety and legality of the agreement tendered by Respondent. The document violated no law, federal or otherwise, and the "important federal question" purportedly raised by the Petition does not even exist.

(b) Even if the Tendered Agreement Had Been Illegal or Arbitrary, or Had Petitioner Effectively Pleaded the Same, However Falsely, It Would Still Have No Bearing on This Case.

The proposed sales agreement is not before the Court, for it was rejected by Petitioner [R. 32]. Respondent is not seeking to enforce the provisions of the License Agreement or of the Lease Agreement, for they have been terminated by Petitioner [R. 30].

Petitioner's argument that it acquired title or the right to title to the equipment by reason of Respondent's tender of an assertedly illegal agreement is founded upon a theory of waiver of conditions upon rights. Under the Lease Agreement [R. 45], Petitioner's rights depended upon an agreement, which never existed, concerning the purchase and continued operation of the equipment; on the contrary, there was only an agreement to enter into such agreement, to which "it is impossible for the law to affix any obligation." 1 *Williston on Contracts* (Rev. ed), Sec. 45. Thus Petitioner had and could have no right whatever to the equipment, and any question of conditions on such right and the waiver of such conditions is wholly foreign to the case. In the words of the Courts below:

> "The fact that Defendant has tendered Plaintiff a form of sales and purchase agreement, to the provisions of which Plaintiff has not agreed, and the fact

that the parties may never agree to a sales and purchase agreement, does not give Plaintiff title or the right to take title to the equipment" [R. 23, 59].

Moreover, the Supreme Court *has never held* that a misuse of patents works a *forfeiture* or *transfer of title* to physical property. Cf. *Hartford-Empire Company, et al. v. United States,* 323 U. S. 386, 89 L. Ed. 322, 65 Sup. Ct. 373 (1945).

3. The Decisions of the Lower Courts Are Not In Conflict With Applicable Decisions of the Supreme Court.

This case does not even remotely resemble *Scott Paper Company v. Marcalus Manufacturing Company, Inc., et al.,* 326 U. S. 249, 90 L. Ed. Adv. Op. 88, 66 Sup. Ct. 131 (1945), where the Court held that a defendant could not be held liable for infringement of a patent which was invalid because anticipated by an expired patent, even though the defendant was the assignor of the patent in suit. In the course of its opinion the Court stated that the patent laws do not contemplate that anyone, by contract or any form of private arrangement, may withhold from the public the use of an invention covered by an expired patent.

In this case, on the other hand, it has been shown that neither the License Agreement nor the tendered sales agreement could possibly be construed as requiring royalties on or as otherwise extending expired patents. Respondent is not seeking to enforce any patent, expired or unexpired. Petitioner brought the action for a declaration that it has acquired title or the right to acquire title to certain personal property. As previously demonstrated, no patents or patent rights are in any way involved, Re-

spondent has been guilty of no illegal practice respecting patents or otherwise ,and no such facts have been alleged.

Even in the event, however, that Respondent had committed the most flagrant abuses of the patent laws or of any other laws of the United States, such conduct would not justify a confiscation of its personal property by Petitioner. See *Hartford-Empire Company, et al. v. United States,* 323 U. S. 386, 89 L. Ed. 322, 65 Sup. Ct. (1945).

In *Sola Electric Company v. Jefferson Electric Company,* 317 U. S. 173, 87 L. Ed. 165, 63 Sup. Ct. 172 (1942), a licensee under an existing license agreement between the parties was held entitled to a declaratory judgment that certain price fixing provisions of the agreement were illegal. In the instant case there is no license agreement between the parties, and the Courts below, contrary to Petitioner's assertion, gave effect to no provision of any agreement between the parties, whether legal or illegal.

4. There Is No Question as to Undue Limitation of the Federal Declaratory Judgment Act.

Though Petitioner did not pray the declaration of any relief concerning any alleged right to possession of the equipment [R. 34], perhaps realizing that it must ultimately stand or fall upon its attempt to require Respondent to part with title to its equipment without any agreement respecting its purchase and continued operation, it is implicit in the decisions of both the District Court and the Circuit Court of Appeals that Petitioner had no right to retain possession of Respondent's equipment unless and until such agreement be entered into. In fact, both Courts expressly said that Petitioner's "possession of the equip-

ment is under and by virtue of the Agreements" [R. 23, 59].

The decision of the Courts below is plainly correct. Apart from the implied-in-law duty of a bailee to return the thing bailed upon termination of the bailment and the fundamental precept that right to possession follows title, in this case Petitioner had the following express obligation under the Lease Agreement:

> "Lessee agrees upon termination hereof howsoever, to return to Lessor the equipment leased hereunder in good and operative condition, the results of ordinary careful use excepted . . ." [Lease Agreement, Sec, Fifth; R. 45].

An exception to this obligation would arise only upon the execution of a sales and purchase agreement prescribing the terms of purchase and continued operation of the equipment. When Petitioner itself terminated the Lease Agreement [R. 30], no sales and purchase agreement having been entered into, it had no right to possession of the equipment on any ground, as the District Court, upon an examination of the pleadings, correctly decided. This conclusion was affirmed by the Circuit Court of Appeals whose opinion, read in context, merely restated the fundamental precepts previously discussed, that under the provision of the Lease Agreement in controversy, title and the resultant right to possession of the equipment would pass to Petitioner only on the execution of a sales and purchase agreement, and that the courts could not impose on either party any obligation to enter into such an agreement.

Whatever the Circuit Court of Appeals may have meant by its incidental allusion to estoppel, it is obvious instanter

that Respondent is in no way estopped to deny title to or right to possession of the equipment. While definitions vary, estoppel must always include the elements of reliance upon a promise or deed by an innocent party to his detriment. See 31 *C. J. S.* (Estoppel), Sec. 1. No such elements exist or are alleged in this case, however, because as apparent from the record, Respondent has at all times vigorously maintained its ownership and right to possession except under an arrangement which was fair, legal and reasonable, and at all times contemplated by the parties and in strict conformity with their agreements. Petitioner has not relied upon or been misled by a representation to the contrary. It is a general rule, moreover, that failure specially to plead estoppel operates as a waiver thereof. 31 *C. J. S.* (Estoppel), Sec. 153 (c).

Conclusion.

1. None of the four questions propounded by the Petition is involved in the case.

2. There is presented no important question of federal law which should be decided by the Supreme Court.

3. The only questions are of fundamental property and contract law which have been correctly determined.

4. As there is no attempt to enforce any patent or contract rights, there is no conflict with the Supreme Court decisions cited by Petitioner.

5. Since no facts were stated upon which any relief could be granted, dismissal of the action did not impose a limitation upon the Declaratory Judgment Act.

6. Having failed in the District Court, after thrice amending its Complaint, to plead a claim upon which relief

could be granted, and its position having been rejected on hearing and rehearing in the Circuit Court of Appeals, Petitioner is seeking, *in extremis,* to raise an issue which does not exist.

Wherefore, Respondent submits that this case is not a proper one for review by certiorari by the Supreme Court of the United States and that the Petition for Writ of Certiorari should be denied.

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